

CIRCULAR LETTER

To

ALL COMMERCIAL BANKS AND INTERMEDIARIES

Subject: Criteria and Requirements for Securities, Participant, and
Intermediary in Monetary Operation

In relation to the stipulation of Bank Indonesia Regulation Number 12/11/PBI/2010 dated July 2, 2010 concerning Monetary Operation (State Gazette of the Republic of Indonesia Year 2010 Number 84, Supplement to State Gazette of the Republic of Indonesia Number 5141), it is necessary to stipulate provisions concerning criteria and requirements for Securities, participant, and intermediary in Monetary Operation in a Bank Indonesia Circular Letter, as follows:

I. GENERAL PROVISIONS

In this Bank Indonesia Circular Letter, referred to as:

1. Bank shall be Commercial Bank as referred to in the applicable Act concerning Banking, conducting conventional business activities.
2. Monetary Operations shall be the implementation of monetary policies by Bank Indonesia in the context of monetary management through Open Market Operations and Standing Facilities.

3. Open Market Operation, hereinafter referred to as OMO, shall be transactions in money market in the context of Monetary Operations conducted by Bank Indonesia and OMO Participants.
4. Standing Facilities shall be rupiah lending facility from Bank Indonesia to Banks and deposit facility by Banks in Bank Indonesia in the context of Monetary Operations.
5. Bank Indonesia Certificate, hereinafter referred to as SBI, shall be securities in rupiah currency issued by Bank Indonesia as the acknowledgement of short-term indebtedness.
6. Sovereign Securities, hereinafter briefly referred to as SBN, shall be Sovereign Debt Securities and Sovereign Syariah Securities.
7. Sovereign Debt Securities, hereinafter referred to as SUN, shall be securities in the form of acknowledgement of indebtedness in rupiah currency or foreign currency, the payment of the interest and principal of which are guaranteed by the Government of the Republic of Indonesia, in accordance with the validity tenure thereof, as referred to in the applicable Act.
8. Sovereign Syariah Securities, hereinafter referred to as SBSN, or may be referred to as Sovereign Sukuk, shall be SBN issued based on the sharia principles, either in rupiah currency or foreign currency, as proof of participation in SBSN assets, as referred to in the applicable Act.

9. Government Bond shall be SUN with more than 12 (twelve) month-tenure with a coupon and/or discounted interest payment.
10. Government Treasury Bills, hereinafter briefly referred to as SPN, shall be SUN with up to 12 (twelve) month-tenure, with discounted interest payment.
11. *Zero Coupon Bond*, hereinafter referred to as ZCB, shall be Government Bond without coupon, with discounted interest payment.
12. Retail Government Bond, hereinafter referred to as ORI, shall be Government Bond which is sold at primary market to individuals or natural persons of Indonesian Citizen.
13. Retail Sovereign Syariah Securities, hereinafter referred to as Retail SBSN or as may be referred to as Retail Sukuk, shall be SBSN sold to individuals or natural persons of Indonesian Citizen through a sales agent.
14. Repurchase Agreement Transaction, hereinafter referred to as repo transaction, shall be a Securities sale transaction by an OMO participant to Bank Indonesia with a repurchase obligation by the OMO participant at the agreed price and within the agreed tenure.
15. Outright Transaction shall be a transaction on outright purchase and sale of Securities by an OMO Participant to Bank Indonesia without

any obligation to sell and repurchase by the Monetary Operation participant.

16. Bank Indonesia-Scripless Securities Settlement System, hereinafter briefly referred to as BI-SSSS, shall be a facility for transactions with Bank Indonesia including the administration thereof, and the electronic administration of securities, which is connected directly among participants, operator, and Bank Indonesia-Real Time Gross Settlement System.
17. Bank Indonesia-Real Time Gross Settlement, hereinafter briefly referred to as BI-RTGS System, shall be an electronic fund transfer system among the participants of BI-RTGS System in rupiah currency, the settlement of which is conducted in a real time manner per individual transaction.

II. SECURITIES

1. The criteria of Securities which may be used in Monetary Operations shall be as follows:
 - a. issued by Bank Indonesia and/or the Government of the Republic of Indonesia;
 - b. denominated in rupiah;
 - c. administered in BI-SSSS;
 - d. recorded in a trade/active account in BI-SSSS; and
 - e. not being subject to a pledge.

2. The types of Securities meeting the criteria as referred to in point 1 shall include:

- a. SBI; and
- b. SBN, comprising:
 - 1) SUN, which consists of SPN and Government Bond including ZCB and ORI; and
 - 2) SBSN including Retail SBSN.

3. The requirements for Securities:

For repo transactions in the context of OMO and lending facility:

- a. SBI
Having minimum remaining tenure of 2 (two) business days on the second leg of repo transaction.
- b. SBI
Having minimum remaining tenure of 3 (three) business days on the second leg of repo transaction.

III. PRICE AND HAIRCUT OF SECURITIES

- 1. The price and haircut of Securities shall be determined and announced by Bank Indonesia in BI-SSSS and/ or other means.
- 2. The price of Securities as referred to in point 1 shall be determined as follows:
 - a. The price of SBI shall be determined by Bank Indonesia by taking into consideration, among other things, the weighted

average of discount rate on the issuance date and during the remaining validity tenure of each series of SBI.

- b. The price of SBN shall be determined by Bank Indonesia by taking into consideration, among other things, the market price of each type and series of SBN.
3. *Haircut* shall be a deducting factor for the price of Securities.
4. *Haircut* as referred to in point 1 shall be determined in the amount of:
 - a. 0% (zero percent) for SBI; and
 - b. 5% (five percent) for SBN.
5. Bank Indonesia may change the haircut as referred to in point 4 and announce such change through BI-SSSS, Commercial Bank Daily Report System and/or other means.
6. In the event of an outright sale transaction by OMO participants due to a settlement failure in the second leg of repo transaction or lending facility, the price applied in the calculation shall be the price on the outright transaction date the maximum amount of which shall be equal to the price in transaction in the first leg.
7. In the event of an outright purchase transaction by OMO participants due to a settlement failure in the second leg of reverse repo transaction, the price applied in the calculation shall be the price on the outright transaction date the minimum amount of which shall be equal to the price in transaction in the first leg.

IV. CALCULATION OF SETTLEMENT VALUE

1. The calculation of the settlement value of lending facility transactions, repo transactions, and reverse repo transactions

- a. The value of Securities settlement shall be equal to the nominal value of Securities subject to the repurchase agreement or subject to the reverse repurchase agreement.

- b. The value of fund settlement for the first leg settlement shall be as follows:

- 1) SBI, SPN, ZCB and SBSN without coupon

$$\text{First leg settlement value} = \frac{\text{Nominal value of Securities subject to the repurchase agreement}}{\text{subject to the repurchase agreement}} \times \left(\text{Price of Securities} - \text{Haircut} \right)$$

- 2) Government Bond including ORI

$$\text{First leg settlement value} = \left[\frac{\text{Nominal value of Securities subject to the repurchase agreement}}{\text{subject to the repurchase agreement}} \times \left(\text{Price of Securities} - \text{Haircut} \right) \right] + \text{Accrued Interest}$$

- 3) SBSN

$$\text{First leg settlement value} = \left[\frac{\text{Nominal value of Securities subject to the repurchase agreement}}{\text{subject to the repurchase agreement}} \times \left(\text{Price of Securities} - \text{Haircut} \right) \right] + \text{Accrued Return}$$

Remarks:

Price of Securities : The price of Securities as announced in BI-SSSS on the date of lending facility transaction, repo transaction, and reverse repo transaction.

Haircut : Haircut as announced in BI-SSSS on the lending facility transaction, repo

transaction, and reverse repo transaction.

Accrued Interest : The right on coupon/return on Securities
and Accrued calculated as from 1 (one) day following
Return the date of the last coupon/return
payment up to the first leg settlement
date.

- c. The value of fund settlement for the second leg settlement shall be calculated as follows:

$$\text{Second leg settlement value} = \text{First leg settlement value} + \frac{\text{Interest on Repo/Reverse Repo/ Lending Facility transaction}}{\text{Repo rate}}$$

$$\frac{\text{Interest on Repo/Reverse Repo/ Lending Facility Transaction}}{\text{Repo rate}} = \frac{\text{First leg settlement value}}{\text{Repo rate}} \times \frac{\text{Tenure}}{360}$$

Remarks:

Tenure : The period of lending facility or repo transaction or reverse repo transaction

2. Outright Transaction

The calculation of the settlement value of transaction on outright purchase or sale of securities shall be as follows:

- 1) SPN, ZCB and SBSN without coupon

$$\text{Outright settlement value} = \frac{\text{Nominal value of Securities}}{\text{Price of Securities}}$$

- 2) Government Bond including ORI

$$\text{Outright settlement value} = \left(\begin{array}{cc} \text{Nominal Value} & \text{Price} \\ \text{of} & \text{of} \\ \text{Securities} & \text{Securities} \end{array} \right) \times + \text{Accrued interest}$$

3) SBSN

$$\text{Outright settlement value} = \left(\begin{array}{cc} \text{Nominal Value} & \text{Price} \\ \text{of} & \text{of} \\ \text{Securities} & \text{Securities} \end{array} \right) \times + \text{Accrued return}$$

Remarks:

Price of Securities : The price of securities concerned as announced in BI-SSSS on the outright transaction date, or in the maximum price equal to the transaction price on the first leg.

Accrued interest and accrued return : The right on coupon/return of Securities calculated as from 1 (one) day following the date of the last coupon/return payment up to the outright settlement date.

3. Early Redemption of SBI

In the event of a failure in the settlement of matured repo transaction and matured lending facility transaction using SBI, the calculation of the cash value settlement shall be as follows:

$$\text{Cash Value of early redemption} = \frac{\text{Nominal Value} \times 360}{360 + (\text{Discount Rate} \times \text{Remaining Tenure})}$$

Remarks:

Discount Rate : the weighted average of discount rate as the SBI is issued.

V. PARTICIPANTS AND INTERMEDIARIES IN MONETARY OPERATION

1. Monetary Operation Participants

- a. Monetary Operation Participants shall be Banks.
- b. The requirements for Monetary Operation participants shall be as follows:
 - 1) having active status as participants of BI-SSSS and BI-RTGS System;
 - 2) not being subject to a temporary suspension of its participation in Monetary operations activities;
 - 3) must have demand deposit account with Bank Indonesia; and
 - 4) must have securities account in BI-SSSS.
- c. Monetary Operation participants shall be obliged to provide sufficient funds in a demand deposit account with Bank Indonesia and/or sufficient securities in a securities account in BI-SSSS for fulfilling settlement liabilities in Monetary Operation transactions.
- d. Monetary Operation participants shall conduct Monetary Operation transactions for their own benefit.

2. Intermediaries

- a. Intermediaries shall make OMO transactions for the benefit of OMO participants.
- b. Intermediaries as referred to in point a shall consist of:

- 1) rupiah and foreign exchange money market brokers;
and
 - 2) capital market brokers appointed by the Minister of Finance of the Republic Indonesia as Main Dealers.
- c. Capital market brokers as referred to in point b.2) may only serve as intermediaries in repo transactions, reverse repo transactions, and outright purchase or sale transactions on securities.
- d. The requirements for becoming Intermediaries shall be as follows:
- 1) Having active status as participant of BI-SSSS; and
 - 2) Not being subject to a sanction in relation to business license by the authorized supervisory authority.

VI. CLOSING

The provisions in this Bank Indonesia Circular Letter shall be effective on July 7, 2010.

For public cognizance, it is ordered that this Bank Indonesia Circular Letter be promulgated in the State Report of the Republic of Indonesia.

Please be informed accordingly.

BANK INDONESIA,

HENDAR

DIRECTOR OF MONETARY MANAGEMENT